

Boone County Hospital

Accountants' Report and Financial Statements

June 30, 2006 and 2005



Boone County Hospital

June 30, 2006 and 2005

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Boone County Hospital
Boone, Iowa

We have audited the accompanying balance sheets of Boone County Hospital as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boone County Hospital as of June 30, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Boone County Hospital
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
August 14, 2006

Boone County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2006 and 2005

Introduction

This management's discussion and analysis of the financial performance of Boone County Hospital provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and noncurrent cash and deposits (decreased) increased in 2006 and 2005 by \$(1,030,000) and \$310,000, or (30)% and 10%, respectively.
- The Hospital's net assets increased in each of the past two years with a \$604,000 or 4% increase in 2006 and a \$482,000 or 3% increase in 2005.
- The Hospital reported operating losses of \$224,565 and \$139,939 in 2006 and 2005, respectively.
- Net nonoperating revenues increased in 2006 by approximately \$57,000 and decreased by \$94,000 in 2005.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and change in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors and contributors. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting.

Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$604,000 (4%) in 2006 and \$482,000 (3%) in 2005 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2006	2005	2004
Assets			
Patient accounts receivable, net	\$ 5,032,131	\$ 3,918,049	\$ 4,234,414
Other current assets	3,460,145	3,869,472	3,331,872
Capital assets, net	13,179,032	13,226,322	13,678,929
Other noncurrent assets	<u>1,835,331</u>	<u>2,046,052</u>	<u>2,042,375</u>
Total assets	<u>\$ 23,506,639</u>	<u>\$ 23,059,895</u>	<u>\$ 23,287,590</u>
Liabilities			
Long-term debt	\$ 3,936,228	\$ 4,680,849	\$ 5,407,421
Other current and noncurrent liabilities	<u>4,248,149</u>	<u>3,660,969</u>	<u>3,644,259</u>
Total liabilities	<u>8,184,377</u>	<u>8,341,818</u>	<u>9,051,680</u>
Net Assets			
Invested in capital assets, net of related debt	8,432,976	7,922,303	7,637,960
Restricted – expendable for			
Debt service payments	298,398	566,966	272,482
Specific operating activities	12,176	18,353	—
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	<u>6,521,272</u>	<u>6,153,015</u>	<u>6,268,028</u>
Total net assets	<u>15,322,262</u>	<u>14,718,077</u>	<u>14,235,910</u>
Total liabilities and net assets	<u>\$ 23,506,639</u>	<u>\$ 23,059,895</u>	<u>\$ 23,287,590</u>

In 2006, the principal change in assets related to an increase in accounts receivable of approximately \$1,114,000. This was the result of billing issues related to converting to a critical access hospital and converting a physician clinic to provider-based status. The increase in accounts receivable caused a decrease in general cash. Timing for payment of accounts payable invoices was also extended, thus, causing an increase in accounts payable. Contributions for capital improvements accounted for nearly 25% of the change in net assets.

In 2005, a significant change in total assets was cash as a result of improvements in the collection of accounts receivable. Days in Accounts Receivable decreased in 2005 to 55.8 from 64.4 the previous year.

Operating Results

In 2006, the Hospital's Excess of Revenues Over Expenses was \$454,185, as shown in Table 2.

Table 2: Operating Results

	2006	2005	2004
Operating Revenues			
Net patient service revenue	\$ 26,722,094	\$ 25,264,189	\$ 23,308,709
Other operating revenues	<u>1,402,849</u>	<u>1,739,213</u>	<u>1,780,758</u>
Total operating revenues	<u>28,124,943</u>	<u>27,003,402</u>	<u>25,089,467</u>
Operating Expenses			
Salaries and wages and employee benefits	14,863,394	14,771,343	13,386,173
Medical professional fees	3,449,125	2,987,097	3,147,576
Depreciation and amortization	1,407,623	1,393,403	1,282,424
Other operating expenses	<u>8,629,366</u>	<u>7,991,498</u>	<u>7,528,043</u>
Total operating expenses	<u>28,349,508</u>	<u>27,143,341</u>	<u>25,344,216</u>
Operating Loss	<u>(224,565)</u>	<u>(139,939)</u>	<u>(254,749)</u>
Nonoperating Revenues (Expenses)			
Non-capital contributions	4,094	33,359	25,942
Interest income	124,314	105,900	80,064
Interest expense	(249,539)	(284,036)	(294,360)
Property tax revenue	<u>799,881</u>	<u>766,883</u>	<u>904,211</u>
Total nonoperating revenues	<u>678,750</u>	<u>622,106</u>	<u>715,857</u>
Excess of Revenues Over Expenses Before Capital Contribution	454,185	482,167	461,108
Capital Contribution	<u>150,000</u>	<u>—</u>	<u>—</u>
Increase in Net Assets	<u>\$ 604,185</u>	<u>\$ 482,167</u>	<u>\$ 461,108</u>

Operating Loss

In 2006, the operating loss was due in part to reduced inpatient census. The patient census was down approximately 12% from 2005. The Hospital also recorded demolition cost for a building of \$279,694 in operating expenses.

In 2005, the operating loss was less than 2004. The loss improved due to better reimbursement and revenue increases in Emergency Room, Laboratory and Radiology. The Hospital's health insurance costs were higher than anticipated, which accounted for a significant increase in the employee benefit expenses.

The Hospital's Cash Flows

The Hospital's cash decreased by \$1,260,852 in 2006 due in part to renovation of patient care areas, including physician clinics. Increases in patient accounts receivable also contributed to the reduction in available cash. The Hospital expended \$1,301,577 in cash for capital assets in 2006.

The Hospital's cash increased \$605,000 in 2005 due in part to decreases in accounts receivable. The Hospital expended \$993,000 in cash for capital assets in 2005.

Capital Contribution

The Hospital received a capital contribution of \$150,000 from the Boone County Health Care Foundation, which was used for hospice rooms.

Capital Asset and Debt Administration

Capital Assets

At the end of 2006 and 2005, the Hospital had \$13,179,032 and \$13,226,322, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2006, the Hospital added \$1,396,856 in new capital assets. In 2005, the Hospital added \$926,000 in new capital assets.

Debt

At June 30, 2006 and 2005, the Hospital had \$4,686,498 and \$5,389,288, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. The Hospital issued no new debt in 2006 or 2005.

Factors Bearing on Boone County Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of an existing circumstance that could significantly affect its financial health in the future:

- The Hospital recruited an OB/GYN physician and will be enhancing its anesthesia services in the fall of 2006.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by telephoning (515) 433-8461.

Boone County Hospital

Balance Sheets

June 30, 2006 and 2005

Assets

	2006	2005
Current Assets		
Cash	\$ 840,037	\$ 1,752,046
Assets held under indenture agreement – Bond Fund	316,163	586,671
Patient accounts receivable, net of allowance; 2006 – \$1,441,655, 2005 – \$1,206,656	5,032,131	3,918,049
Property tax receivable	867,568	799,961
Estimated amounts due from third-party payers	660,000	—
Supplies	698,526	683,105
Prepaid expenses	<u>77,851</u>	<u>47,689</u>
Total current assets	<u>8,492,276</u>	<u>7,787,521</u>
Noncurrent Cash and Deposits		
Internally designated		
Edward H. Peterson Endowment Fund	255,840	247,317
Capital and other expenditures	1,336,081	1,456,954
Education Fund	6,480	6,241
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Specific operating activities	<u>12,176</u>	<u>18,353</u>
	<u>1,668,017</u>	<u>1,786,305</u>
Capital Assets, net of accumulated depreciation	<u>13,179,032</u>	<u>13,226,322</u>
Other Assets		
Deferred financing costs (net of amortization of \$142,446 in 2006 and \$130,397 in 2005)	41,509	53,558
Investment	—	38,442
Receivables	103,305	130,247
Other	<u>22,500</u>	<u>37,500</u>
	<u>167,314</u>	<u>259,747</u>
Total Assets	<u>\$ 23,506,639</u>	<u>\$ 23,059,895</u>

Liabilities and Net Assets

	2006	2005
Current Liabilities		
Current maturities of long-term debt	\$ 750,270	\$ 708,439
Accounts payable	1,175,107	513,822
Accrued expenses		
Payroll and related deductions	1,248,276	1,211,394
Health insurance	195,082	221,000
Interest	17,765	19,705
Estimated amounts due to third-party payers	—	186,648
Deferred revenue for property taxes	<u>861,649</u>	<u>799,961</u>
Total current liabilities	4,248,149	3,660,969
 Long-term Debt	 <u>3,936,228</u>	 <u>4,680,849</u>
Total liabilities	<u>8,184,377</u>	<u>8,341,818</u>
 Net Assets		
Invested in capital assets, net of related debt	8,432,976	7,922,303
Restricted – expendable for		
Debt service payments	298,398	566,966
Specific operating activities	12,176	18,353
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	<u>6,521,272</u>	<u>6,153,015</u>
Total net assets	<u>15,322,262</u>	<u>14,718,077</u>
 Total Liabilities and Net Assets	 <u>\$ 23,506,639</u>	 <u>\$ 23,059,895</u>

Boone County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 28,309,397	\$ 26,571,786
Provision for uncollectible accounts	<u>(1,587,303)</u>	<u>(1,307,597)</u>
Net patient service revenue	26,722,094	25,264,189
Other	<u>1,402,849</u>	<u>1,739,213</u>
	<u>28,124,943</u>	<u>27,003,402</u>
Operating Expenses		
Salaries and wages	11,695,369	11,232,017
Employee benefits	3,168,025	3,539,326
Medical professional fees	3,449,125	2,987,097
Supplies and other	5,111,554	4,911,661
General services	1,175,215	1,066,225
Administrative services	1,749,219	1,709,673
Insurance	313,684	303,939
Depreciation and amortization	1,407,623	1,393,403
Building demolition and removal	<u>279,694</u>	<u>—</u>
	<u>28,349,508</u>	<u>27,143,341</u>
Operating Loss	<u>(224,565)</u>	<u>(139,939)</u>
Nonoperating Revenues (Expenses)		
Non-capital contributions	4,094	33,359
Interest income	124,314	105,900
Interest expense	(249,539)	(284,036)
Property tax revenue	<u>799,881</u>	<u>766,883</u>
	<u>678,750</u>	<u>622,106</u>
Excess of Revenues Over Expenses Before Capital Contribution	454,185	482,167
Capital Contribution	<u>150,000</u>	<u>—</u>
Increase in Net Assets	604,185	482,167
Net Assets, Beginning of the Year	<u>14,718,077</u>	<u>14,235,910</u>
Net Assets, End of the Year	<u>\$ 15,322,262</u>	<u>\$ 14,718,077</u>

Boone County Hospital

Statements of Cash Flows

Years Ended June 30, 2006 and 2005

	2006	2005
Operating Activities		
Receipts from and on behalf of patients	\$ 24,761,364	\$ 25,425,202
Payments to suppliers	(11,558,068)	(11,060,962)
Payments to employees	(14,826,512)	(14,531,918)
Other receipts and payments, net	<u>1,489,955</u>	<u>1,840,649</u>
Net cash provided by (used in) operating activities	<u>(133,261)</u>	<u>1,672,971</u>
Noncapital Financing Activities		
Property taxes supporting operations	799,881	766,883
Gifts and grants for other than capital purchases	<u>4,094</u>	<u>33,359</u>
Net cash provided by noncapital financing activities	<u>803,975</u>	<u>800,242</u>
Capital and Related Financing Activities		
Purchase of capital assets	(1,301,577)	(992,910)
Principal payments on long-term debt	(702,790)	(698,330)
Interest paid on long-term debt	(251,479)	(285,857)
Contributions for capital assets	<u>150,000</u>	<u>—</u>
Net cash used in capital and related financing activities	<u>(2,105,846)</u>	<u>(1,977,097)</u>
Investing Activities		
Purchase of certificates of deposit	(1,100,192)	(1,384,192)
Proceeds from sale of certificates of deposit	1,155,891	1,409,560
Income received on deposits	<u>118,581</u>	<u>83,065</u>
Net cash provided by investing activities	<u>174,280</u>	<u>108,433</u>
Increase (Decrease) in Cash	(1,260,852)	604,549
Cash, Beginning of Year	<u>2,552,658</u>	<u>1,948,109</u>
Cash, End of Year	<u>\$ 1,291,806</u>	<u>\$ 2,552,658</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 840,037	\$ 1,752,046
Cash in assets held under indenture agreement – Bond Fund	316,163	586,671
Noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	38,310	29,820
Capital and other expenditures	78,640	159,528
Education Fund	6,480	6,240
Externally restricted		
Specific operating activities	<u>12,176</u>	<u>18,353</u>
	<u>\$ 1,291,806</u>	<u>\$ 2,552,658</u>

Boone County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of Operating Loss to Net Cash		
Provided by (Used in) Operating Activities		
Operating loss	\$ (224,565)	\$ (139,939)
Items not requiring (providing) cash		
Loss on sale of capital assets	51,523	124
Depreciation	1,392,623	1,378,403
Amortization	15,000	28,369
Accrued self-insurance	(25,918)	51,878
Changes in		
Patient and other receivables	(1,114,082)	316,365
Supplies	(15,421)	24,170
Prepaid expenses	(30,162)	(15,904)
Accounts payable and accrued expenses	596,969	160,164
Estimated amounts due to third-party payers	(846,648)	(155,352)
Other	<u>67,420</u>	<u>24,693</u>
Net cash provided by (used in) operating activities	\$ <u>(133,261)</u>	\$ <u>1,672,971</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 101,067	\$ 5,788

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Boone County Hospital is a county public hospital under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Boone County area. The Hospital is exempt from income taxes as a political subdivision of the State of Iowa.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters except employee health and dental benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Noncurrent Cash and Deposits

Noncurrent cash and deposits include (1) assets permanently and temporarily restricted by donors, (2) assets restricted under indenture agreements (in current assets), (3) internally designated as unrestricted assets set aside by the Board of Trustees for the Edward H. Peterson Endowment Fund and the Education Fund, and (4) internally designated unrestricted assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Supplies

All supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital.

Land improvements	15 to 20 years
Buildings, improvements and fixed equipment	20 to 40 years
Major moveable equipment, computers and furniture	3 to 7 years

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$319,457 and \$212,772 for 2006 and 2005, respectively.

Property Taxes

The Hospital received approximately 3% of its financial support from property tax revenues in each of the years ended June 30, 2006 and 2005, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Net Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted unexpendable and expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital. Restricted expendable net assets include amounts as required by the revenue bond indentures. Restricted net

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

assets are reduced by any liabilities payable from restricted assets. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Nonexpendable Net Assets

The restricted net assets include the Albert C. Linn Endowment Fund. This fund was established by resolution of the Board of Trustees, December 19, 1996, in the amount of \$57,440. The original assets of the fund were acquired from the estate of Albert C. Linn, whose will provided that they were to be used by the Hospital to create an endowment fund, the principal to be invested and retained intact and the income only to be used as directed by the Board of Trustees.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Financing Costs

Costs incurred in connection with issuance of the revenue bonds have been deferred and are being amortized to expense over the life of the bonds using the bonds outstanding method.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The cost of the coverage is accrued over the coverage period and includes both the minimum premium plus any estimated additional costs related to claims during the period. Adjustments of estimated to actual expenses after the policy terms are included in the period such adjustments are determined.

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare.** Inpatient acute care services and substantially all outpatient services rendered to Medicare Program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient swingbed services are paid at prospectively determined per diem rates that are based on the patient's acuity. Effective September 1, 2005, the Hospital was designated as a critical access hospital (CAH). Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary.
- **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries are reimbursed based upon prospectively determined rates. Effective September 1, 2005, when the Hospital became a CAH, inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 52% and 58% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2006 and 2005, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2006 and 2005 was:

	<u>2006</u>	<u>2005</u>
Medicare and Medicaid	\$ 1,481,873	\$ 1,166,392
Other third-party payers	2,296,906	1,843,964
Patients	2,079,182	1,819,640
Clinics	<u>615,825</u>	<u>294,709</u>
	6,473,786	5,124,705
Less allowances for uncollectible accounts	<u>1,441,655</u>	<u>1,206,656</u>
	<u>\$ 5,032,131</u>	<u>\$ 3,918,049</u>

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2006 and 2005. The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2006 and 2005.

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Summary of Carrying Value

The carrying value of deposits included in the balance sheets is as follows:

	<u>2006</u>	<u>2005</u>
Deposits	\$ 2,792,092	\$ 4,108,643
Accrued interest receivable	<u>32,125</u>	<u>16,379</u>
	<u>\$ 2,824,217</u>	<u>\$ 4,125,022</u>
Included in the following balance sheet captions		
Cash	\$ 840,037	\$ 1,752,046
Assets held under indenture agreement – Bond Fund	316,163	586,671
Noncurrent cash and deposits	<u>1,668,017</u>	<u>1,786,305</u>
	<u>\$ 2,824,217</u>	<u>\$ 4,125,022</u>

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2006 and 2005, were as follows:

2006	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance June 30, 2006</u>
Land and improvements	\$ 678,080	\$ —	\$ 20,089	\$ 2,163	\$ 660,154
Buildings and improvements	13,342,951	26,931	57,317	69,099	13,381,664
Equipment	12,872,402	506,345	1,074,313	164,677	12,469,111
Construction in progress	<u>33,852</u>	<u>863,580</u>	<u>—</u>	<u>(235,939)</u>	<u>661,493</u>
	<u>26,927,285</u>	<u>1,396,856</u>	<u>1,151,719</u>	<u>0</u>	<u>27,172,422</u>
Less accumulated depreciation for					
Land and improvements	137,995	7,372	13,393		131,974
Buildings and improvements	3,939,833	545,005	38,211		4,446,627
Equipment	<u>9,623,135</u>	<u>840,246</u>	<u>1,048,592</u>		<u>9,414,789</u>
	<u>13,700,963</u>	<u>1,392,623</u>	<u>1,100,196</u>	<u>0</u>	<u>13,993,390</u>
	<u>\$ 13,226,322</u>	<u>\$ 4,233</u>	<u>\$ 51,523</u>	<u>\$ 0</u>	<u>\$ 13,179,032</u>

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

2005	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Land and improvements	\$ 678,080	\$ —	\$ —	\$ —	\$ 678,080
Buildings and improvements	12,801,668	179,970	—	361,313	13,342,951
Equipment	12,618,867	146,898	97,250	203,887	12,872,402
Construction in progress	<u>—</u>	<u>599,052</u>	<u>—</u>	<u>(565,200)</u>	<u>33,852</u>
	<u>26,098,615</u>	<u>925,920</u>	<u>97,250</u>	<u>0</u>	<u>26,927,285</u>
Less accumulated depreciation for					
Land and improvements	130,089	7,906	—	—	137,995
Buildings and improvements	3,399,151	540,682	—	—	3,939,833
Equipment	<u>8,890,446</u>	<u>829,815</u>	<u>97,126</u>	<u>—</u>	<u>9,623,135</u>
	<u>12,419,686</u>	<u>1,378,403</u>	<u>97,126</u>	<u>—</u>	<u>13,700,963</u>
	<u>\$ 13,678,929</u>	<u>\$ (452,483)</u>	<u>\$ 124</u>	<u>\$ 0</u>	<u>\$ 13,226,322</u>

Construction in progress includes architect fees and construction relating to work performed on planning and beginning several projects to be completed by June 30, 2008. Management expects the projects to cost approximately \$8 million and will be financed from both internal and external sources. (See Note 15).

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2006 and 2005 follows.

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ 4,635,000	\$ —	\$ 485,000	\$ 4,150,000	\$ 510,000
Capital lease obligation (B)	102,178	—	42,836	59,342	59,342
Note payable to bank (C)	<u>652,110</u>	<u>—</u>	<u>174,954</u>	<u>477,156</u>	<u>180,928</u>
	<u>\$ 5,389,288</u>	<u>\$ 0</u>	<u>\$ 702,790</u>	<u>\$ 4,686,498</u>	<u>\$ 750,270</u>

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ 5,100,000	\$ —	\$ 465,000	\$ 4,635,000	\$ 485,000
Capital lease obligation (B)	166,238	—	64,060	102,178	48,323
Note payable to bank (C)	<u>821,380</u>	<u>—</u>	<u>169,270</u>	<u>652,110</u>	<u>175,116</u>
	<u>\$ 6,087,618</u>	<u>\$ 0</u>	<u>\$ 698,330</u>	<u>\$ 5,389,288</u>	<u>\$ 708,439</u>

Scheduled principal and interest repayments on long-term debt are as follows:

	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2007	\$ 690,928	\$ 212,034	\$ 59,342	\$ 3,735
2008	722,420	179,761	—	—
2009	668,808	146,110	—	—
2010	590,000	115,330	—	—
2011	620,000	83,863	—	—
2012-2013	<u>1,335,000</u>	<u>65,651</u>	<u>—</u>	<u>—</u>
	<u>\$ 4,627,156</u>	<u>\$ 802,749</u>	<u>\$ 59,342</u>	<u>\$ 3,735</u>

- (A) Hospital Revenue Bonds, Series 1997; \$7,500,000 maturing serially at varying amounts through 2013; semiannual interest payments at rates ranging from 4.80% to 5.30%; callable beginning December 1, 2007 and thereafter at varying amounts, collateralized by the Hospital's net revenues.
- (B) The capital lease obligation shown as long-term debt includes a lease for an MRI suite, which expires in 2007. The assets and liabilities under the capital lease is recorded at the present value of the minimum lease payments calculated using a maximum number of scans and the scan rate, to be paid during the term of the lease. Depreciation of assets under the capital lease is included in depreciation expense. At June 30, 2006 and 2005, the MRI suite and equipment under the capital lease amounted to \$205,062, and accumulated depreciation was \$71,772 and \$51,266, respectively.
- (C) The note payable to bank is due January 2009, with monthly principal and interest of \$16,225 at 3.4%. The note is secured by radiology equipment.

The Hospital Revenue Bond Indentures place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The Series 1997 note resolution provides that payments be made to a sinking fund in amounts sufficient to pay the principal and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$316,163, which was in excess of the required reserve amount of \$315,256 at June 30, 2006.

Note 7: Employee Health Insurance Claims

The Hospital is self-insured for the first \$100,000 per individual of employee health insurance risks. The Hospital purchases insurance coverage above the self-insurance limits. Losses from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 221,000	\$ 169,122
Current year claims incurred and changes in estimates for claims incurred in prior year	1,445,608	1,897,240
Payments for claims	<u>(1,471,526)</u>	<u>(1,845,362)</u>
Balance, end of year	\$ <u>195,082</u>	\$ <u>221,000</u>

Note 8: Boone County Health Care Foundation

The Boone County Health Care Foundation is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting health care services in Boone County. The Foundation donated \$150,000 to the Hospital for the year ended June 30, 2006. The Hospital provided for the expenses of the Foundation director in the amount of \$34,030 and \$16,365 in 2006 and 2005, respectively. The unaudited financial position and results of operations of the Foundation for 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Cash and investments	\$ <u>203,098</u>	\$ <u>295,106</u>
Net assets	\$ <u>203,098</u>	\$ <u>295,106</u>
Revenue	\$ 126,180	\$ 148,879
Expenses	<u>218,188</u>	<u>27,113</u>
Revenue over (under) expenses	\$ <u>(92,008)</u>	\$ <u>121,766</u>

Boone County Hospital
Notes to Financial Statements
June 30, 2006 and 2005

Note 9: Operating Leases

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2013. These leases generally contain renewal options for periods ranging from one to ten years and require the Hospital to pay all executory costs (maintenance and insurance). Rental payments include minimum rentals.

Future minimum lease payments at June 30, 2006, were:

2007	\$ 625,548
2008	104,118
2009	104,118
2010	104,118
2011	104,118
2012 – 2013	<u>112,794</u>
Future minimum lease payments	<u>\$ 1,154,814</u>

Rental expense for all operating leases totaled \$643,399 and \$655,136 for 2006 and 2005, respectively.

Note 10: Defined Benefit Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by State statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at P. O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2006 and 2005. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2006, 2005 and 2004 were \$659,660, \$619,449 and \$616,758, respectively, which equaled the required contributions for each year.

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 11: Commitment, Management Agreement

In January 2003, the Hospital entered into a five-year management agreement with QHR, Inc. Under the agreement, the Hospital will pay QHR a management fee of \$227,836 for each year of the agreement, subject to an annual adjustment to reflect changes in the *Consumer Price Index*. In addition, QHR will provide certain key personnel (presently, the administrator and chief financial officer) whose salaries, fringe benefits and employment and payroll taxes are reimbursable under the agreement. Total fees and reimbursements paid to QHR pursuant to the agreement amounted to \$716,482 and \$622,753 for the years ended June 30, 2006 and 2005, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 799,881	\$ —	\$ 799,881	\$ 799,961
Other revenues/receipts	<u>28,403,351</u>	<u>(1,960,730)</u>	<u>26,442,621</u>	<u>29,956,045</u>
	29,203,232	(1,960,730)	27,242,502	30,756,006
Expenses/disbursements	<u>28,599,047</u>	<u>(551,386)</u>	<u>28,047,661</u>	<u>30,323,000</u>
	604,185	(1,409,344)	(805,159)	433,006
Balance, beginning of year	<u>14,718,077</u>	<u>6,801,412</u>	<u>21,519,489</u>	<u>21,519,489</u>
Balance, end of year	<u>\$ 15,322,262</u>	<u>\$ 5,392,068</u>	<u>\$ 20,714,330</u>	<u>\$ 21,952,495</u>

Boone County Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 13: Restricted and Designated Net Assets

At June 30, 2006 and 2005, restricted expendable net assets were available for the following purposes.

	<u>2006</u>	<u>2005</u>
Debt service	\$ 298,398	\$ 566,966
Specific operating activities	12,176	18,353

At June 30, 2006 and 2005, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes.

	<u>2006</u>	<u>2005</u>
Edward H. Peterson Endowment Fund	\$ 255,840	\$ 247,317
Capital and other expenditures	1,336,081	1,456,954
Education Fund	<u>6,480</u>	<u>6,241</u>
Total unrestricted designated net assets	\$ <u>1,598,401</u>	\$ <u>1,710,512</u>

Designated net assets remain under the control of the Board of Trustees, which may, at its discretion, later use these net assets for other purposes.

At June 30, 2006 and 2005, \$57,440 represents nonexpendable net assets related to the Albert C. Linn Endowment Fund.

Note 14: YMCA Agreement

The Hospital has leased, under an operating lease agreement, a building to the YMCA for 20 years for \$1 per year, which can be extended for an additional 20 years. The Hospital can continue to occupy space in the building for therapy services no more than one and one half years from the start of the lease term at September 1, 2005. The Hospital is obligated to share in the costs of repairs and replacement of major systems over \$10,000 on a pro rata basis for up to five years. The Hospital also agreed to contribute \$25,000 per year for five years to assist with operations of the YMCA.

Note 15: Subsequent Event – Line of Credit

The Hospital has entered into a construction line of credit for up to \$8,500,000, none of which was drawn upon prior to June 30, 2006. The initial interest rate is 4.54% up to December 31, 2007, at which time any amounts drawn will be converted to fixed debt. Any amounts related to equipment will be set up on a five-year repayment schedule at 4.54%. Amounts related to building construction will be set up over a 15-year repayment schedule at 5.19%.

Supplementary Information

Boone County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 3,506,423	\$ 3,506,423		\$ 4,161,551	\$ 4,161,551	
Nursing Services						
Operating room	6,060,538	810,436	\$ 5,250,102	6,152,788	1,062,508	\$ 5,090,280
Skilled nursing	367,265	367,265		21,000	21,000	
Recovery room	1,130	1,130		1,639	1,639	
Emergency room	5,928,214	431,633	5,496,581	5,435,339	590,414	4,844,925
Public health nursing/home health	1,033,349		1,033,349	996,546		996,546
	<u>13,390,496</u>	<u>1,610,464</u>	<u>11,780,032</u>	<u>12,607,312</u>	<u>1,675,561</u>	<u>10,931,751</u>
Other Professional Services						
Central service and supply	268,541	232,968	35,573	257,415	217,893	39,522
Laboratory	5,166,885	1,295,526	3,871,359	4,518,024	1,206,838	3,311,186
Radiology	3,507,360	420,514	3,086,846	3,379,804	462,550	2,917,254
MRI	1,556,475	104,273	1,452,202	1,597,483	114,388	1,483,095
CT Scan	2,654,180	616,937	2,037,244	2,405,060	520,016	1,885,044
Pharmacy	5,235,448	2,607,908	2,627,540	5,185,503	2,727,354	2,458,149
Anesthesiology	570,982	129,804	441,178	648,835	141,397	507,438
Physical therapy	2,180,524	454,805	1,725,719	2,010,084	396,680	1,613,404
Speech therapy	97,337	49,087	48,250	113,396	51,199	62,197
Occupational therapy	374,295	207,326	166,969	361,008	186,911	174,097
Cardiac rehab	172,768		172,768	205,879		205,879
Specialty clinics	274,058	13	274,045	267,368	458	266,910
Electrocardiology	2,403,836	1,390,038	1,013,798	2,409,025	1,544,273	864,752
Ambulance service	1,396,134	368,624	1,027,510	1,215,707	423,809	791,898
Madrid clinic	267,012		267,012	163,869		163,869
BCFM Boone	4,112,824		4,112,824	4,140,245		4,140,245
Ogden clinic	626,468		626,468	599,521		599,521
Clinical psychology				65,252		65,252
Surgery clinic	129,743		129,743			
	<u>30,994,870</u>	<u>7,877,823</u>	<u>23,117,048</u>	<u>29,543,478</u>	<u>7,993,766</u>	<u>21,549,712</u>
Patient Service Revenue	47,891,789	\$ <u>12,994,710</u>	\$ <u>34,897,080</u>	46,312,341	\$ <u>13,830,878</u>	\$ <u>32,481,463</u>
Contractual Allowances	<u>19,582,392</u>			<u>19,740,555</u>		
Net Patient Service Revenue, before Provision for Uncollectible Accounts	28,309,397			26,571,786		
Provision for Uncollectible Accounts	<u>(1,587,303)</u>			<u>(1,307,597)</u>		
Net Patient Service Revenue	\$ <u>26,722,094</u>			\$ <u>25,264,189</u>		

Boone County Hospital
Schedules of Other Revenues
Years Ended June 30, 2006 and 2005

	2006	2005
Health Center	\$ 55,741	\$ 378,949
Public health nursing services support	165,484	173,313
Cafeteria and catering services	97,229	92,983
Meals on Wheels	105,396	103,184
Rent income	51,099	52,035
Sale of drugs	441,717	384,837
Home Care Aid services support	212,732	228,319
Purchase discounts	52,770	52,350
Medical records fees	4,803	5,082
Diabetes education	80,570	77,621
Adult daycare grants	93,060	97,275
Lifeline	56,193	51,853
Other	<u>(13,945)</u>	<u>41,412</u>
	<u>\$ 1,402,849</u>	<u>\$ 1,739,213</u>

Boone County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 594,992	\$ 553,682	\$ 41,310	\$ 513,102	\$ 485,838	\$ 27,264
Medical/surgical	1,224,591	1,121,769	102,822	1,477,228	1,336,648	140,580
Skilled nursing	324,176	298,618	25,558	110,867	109,480	1,387
Special care unit	251,385	238,827	12,558	249,993	232,943	17,050
Obstetrics	384,752	338,378	46,374	336,296	299,502	36,794
Operating room	1,259,936	665,209	594,727	1,369,896	668,964	700,932
Emergency room	1,469,571	601,455	868,116	1,288,478	513,703	774,775
Public health nursing/home health	1,066,214	828,225	237,989	1,011,038	788,151	222,887
	<u>6,575,617</u>	<u>4,646,163</u>	<u>1,929,454</u>	<u>6,356,898</u>	<u>4,435,229</u>	<u>1,921,669</u>
Other Professional Services						
Central service and supply	196,343	6	196,337	162,056		162,056
Laboratory	1,297,268	558,742	738,526	1,212,808	556,178	656,630
Radiology	1,215,618	474,827	740,791	1,050,816	437,098	613,718
Occupational therapy	144,734		144,734	134,386		134,386
Cardiac rehab	118,289	104,736	13,553	114,041	104,306	9,735
MRI	354,329		354,329	338,330		338,330
Pharmacy	2,136,031	204,896	1,931,135	1,820,901	183,582	1,637,319
Anesthesiology	321,871		321,871	352,338		352,338
Physical therapy	921,409	31,391	890,018	837,068	27,667	809,401
Audiology	35,041		35,041	40,822		40,822
Health education	59,180	54,111	5,069	59,641	51,246	8,395
Health promotion	117,846	28,734	89,112	119,480	31,403	88,077
Ambulance service	533,600	456,140	77,460	487,643	421,454	66,189
Electrocardiology	377,987	264,093	113,894	357,748	252,942	104,806
Specialty clinics	122,470	100,801	21,669	118,682	91,196	27,486
Clinical Psychology				65,328	60,521	4,807
Surgery clinic	84,547	69,297	15,250			
BCFM Boone	2,551,423	1,843,497	707,926	2,515,393	1,798,114	717,279
BCFM Ogden	472,511	347,517	124,994	453,076	336,600	116,476
Madrid clinic	221,331	164,071	57,260	163,149	126,668	36,481
Adult day care	138,642	86,386	52,256	130,591	78,233	52,358
	<u>11,420,470</u>	<u>4,789,245</u>	<u>6,631,225</u>	<u>10,534,297</u>	<u>4,557,208</u>	<u>5,977,089</u>
General Services						
Dietary	518,082	295,113	222,969	494,389	280,015	214,374
Operation of plant	1,048,136	299,074	749,062	928,541	255,025	673,516
Housekeeping	429,176	341,943	87,233	382,649	322,182	60,467
Laundry	115,951		115,951	117,868		117,868
	<u>2,111,345</u>	<u>936,130</u>	<u>1,175,215</u>	<u>1,923,447</u>	<u>857,222</u>	<u>1,066,225</u>
Administrative Services						
Medical records	319,368	221,050	98,318	304,622	220,179	84,443
Administration	2,287,753	781,665	1,506,088	2,114,274	759,673	1,354,601
Quality management	255,109	174,195	80,914	202,424	129,522	72,902
Health center	108,853	54,707	54,146	394,487	202,502	191,985
Health care foundation	40,731	34,030	6,701	18,721	16,365	2,356
Diabetes education	61,236	58,184	3,052	57,503	54,117	3,386
	<u>3,073,050</u>	<u>1,323,831</u>	<u>1,749,219</u>	<u>3,092,031</u>	<u>1,382,358</u>	<u>1,709,673</u>
Insurance	<u>313,684</u>		<u>313,684</u>	<u>303,939</u>		<u>303,939</u>
Employee Benefits	<u>3,168,025</u>		<u>3,168,025</u>	<u>3,539,326</u>		<u>3,539,326</u>
Depreciation and Amortization	<u>1,407,623</u>		<u>1,407,623</u>	<u>1,393,403</u>		<u>1,393,403</u>
Building Demolition and Removal	<u>279,694</u>		<u>279,694</u>			
	<u>\$ 28,349,508</u>	<u>\$ 11,695,369</u>	<u>\$ 16,654,139</u>	<u>\$ 27,143,341</u>	<u>\$ 11,232,017</u>	<u>\$ 15,911,324</u>

Boone County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2006 and 2005

Schedules of Patient Receivables

	<u>2006</u>		<u>2005</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 3,190,503	41.8	\$ 3,134,379	50.0
31-60 days	1,349,134	17.7	1,008,058	16.0
61-90 days	672,230	8.8	548,228	9.0
91-120 days	666,704	8.7	384,097	6.0
Over 4 months	<u>1,756,356</u>	<u>23.0</u>	<u>1,241,328</u>	<u>19.0</u>
Total	7,634,927	<u>100.0</u>	6,316,090	<u>100.0</u>
Clinic and other receivables	831,151		380,526	
Less contractual allowances	1,992,292		1,571,911	
Less allowance for uncollectible accounts	<u>1,441,655</u>		<u>1,206,656</u>	
Net patient receivables	\$ <u>5,032,131</u>		\$ <u>3,918,049</u>	

Allowance for Uncollectible Accounts

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 1,206,656	\$ 1,249,655
Provision for year	1,587,303	1,307,597
Recoveries of accounts previously written off	<u>347,030</u>	<u>436,135</u>
	3,140,989	2,993,387
Accounts written off	<u>1,699,334</u>	<u>1,786,731</u>
Balance, end of year	\$ <u>1,441,655</u>	\$ <u>1,206,656</u>

Boone County Hospital
Schedule of Officials
June 30, 2006

Name	Title	Term Expires
Board of Trustees		
Tim Buckner	Chairman	2008
David Grant	Vice Chairman	2008
Patricia Henkel	Treasurer	2010
Maxine Redeker	Secretary	2006
Keith Kudej	Member	2008
Thomas Good	Member	2006
Bruce Anderson	Member	2006
Hospital Officials		
Joseph Smith	Chief Executive Officer	
Dave Mellett	Chief Financial Officer	

Boone County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2006 and 2005

Supplies

	<u>2006</u>	<u>2005</u>
General	\$ 56,503	\$ 58,428
Pharmacy	268,732	244,576
BCFM Clinics	47,228	31,361
Dietary	9,388	11,512
Plant operation and maintenance	15,357	14,435
Laboratory	23,571	47,523
Operating room	218,213	225,746
Other supplies	<u>59,534</u>	<u>49,524</u>
	\$ <u><u>698,526</u></u>	\$ <u><u>683,105</u></u>

Prepaid Expenses

	<u>2006</u>	<u>2005</u>
Maintenance and other	\$ <u><u>77,851</u></u>	\$ <u><u>47,689</u></u>

Boone County Hospital

Schedule of Insurance Coverage

June 30, 2006

The Cincinnati Insurance Company

Policy No. BEP 266-37 – 36; \$1,000 deductible

Boiler & Machinery; 7/1/04 – 7/1/07

\$ 9,000,000

Physicians Insurance Company of Wisconsin, Inc.

Policy No. 133428; 7/1/05 – 7/1/06

Professional Liability

Institutional each claim

\$ 1,000,000

Institutional aggregate

\$ 3,000,000

Personal Injury/Property Damage each

\$ 1,000,000

Personal Injury/Property Damage aggregate

\$ 3,000,000

Physicians Insurance Company of Wisconsin, Inc.

Policy No. 133430; 7/01/05 – 7/01/06

General Liability each

\$ 1,000,000

Damage to premises rented

\$ 1,000,000

Medical expense limit

\$ 10,000

Personal and Advertising Injury limit

\$ 1,000,000

Employee Benefits Liability limit

\$ 1,000,000

General aggregate

\$ 3,000,000

Products/Completed Operations aggregate

\$ 1,000,000

Fire Damage limit

\$ 1,000,000

Physicians Insurance Company of Wisconsin, Inc.

Policy No. 133431; 7/1/05 – 7/1/06

Umbrella Policy

Professional liability each

\$ 5,000,000

Professional liability aggregate

\$ 5,000,000

Umbrella each

\$ 5,000,000

Umbrella aggregate

\$ 5,000,000

Physicians Insurance Company of Wisconsin, Inc.

Policy No. 133432; 7/01/05 – 7/01/06

Entity Professional Liability Excess

Each professional health care incident

\$ 5,000,000

Annual aggregate

\$ 5,000,000

Jester Insurance – Fireman's Fund

Policy No. NDP 000-8649-3251; 7/1/05 – 7/1/06

Directors and Officers Liability; \$7,500 deductible

Each loss

\$ 2,000,000

Aggregate

\$ 2,000,000

Employers Mutual Casualty Company

Policy No. OB6-60-22-04; 7/1/05 – 7/1/06

Business Protection/Inland Marine; \$1,000 deductible

Buildings

\$ 33,345,710

Personal property

\$ 8,276,919

Data processing equipment

\$ 550,000

Business income

\$ 5,500,000

(Continued)

Boone County Hospital
Schedule of Insurance Coverage
June 30, 2006

Zenith

Policy No. ZO66092001; 7/1/05 – 7/1/06

Workers compensation

Bodily injury – each accident	\$	500,000
Bodily injury – by disease – each employee	\$	500,000
Bodily injury – by disease – policy limit	\$	500,000

Employers Mutual Casualty Company

Policy No. OE6-60-22-04; 7/1/05 – 7/1/06

Automobile liability	\$	1,000,000
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Allied Mutual Insurance Company

Bond No. BD 79 0 0575087; 7/1/05 – 7/1/06

Employee dishonesty	\$	50,000
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Policies expiring in July 2006 have been renewed for a minimum of one year.



**Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Boone County Hospital
Boone, Iowa

We have audited the financial statements of Boone County Hospital as of and for the year ended June 30, 2006 and have issued our report thereon dated August 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated August 14, 2006.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits.

Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the Trustee minutes but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Unclaimed Property

Prior to November 1, 2005, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2006 for the year ended June 30, 2005.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Board of Trustees
Boone County Hospital
Page 4

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

* * * * *

This report is intended solely for the information and use of the governing body, management and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
August 14, 2006

Boone County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2006

Reference Number	Finding
06-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Certain individuals have incompatible duties in the revenue, purchases and payroll cycles in the Hospital and the revenue cycle in the Clinics.</p> <p>Context—Individuals responsible for processing cash receipts, disbursements and recording and monitoring payroll information have duties that include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases and payroll cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>